

Property Taxation Review Committee
Minutes of ISAC/League of Cities Property Tax Reform Proposal Subcommittee
Tuesday, December 7, 2004

Members present:

Senator Sievers
Senator Quirnbach
Tim McGee
Mike Ralston (Dick Stradley)
Curtis Rouse
Jerry Shepler
Mayor Ted Tedesco
Grant Veeder

Members absent:

Larry Sigel

The Subcommittee used a handout from ISAC and the League of Cities entitled "Major Points in the ISAC/League Property Tax Reform Proposal" to focus its discussion. The handout divides the property tax reform proposal into three categories: 1) assessment and valuation, 2) budgeting and taxation, and 3) constraints and limitations.

The Subcommittee discussed division 2, "budgeting and taxation". After the Subcommittee approved modification of the language on the homestead credit, the Subcommittee reached consensus that the Subcommittee shall recommend division 2 for consideration by the full committee.

Division 2, as modified reads as follows:

Budgeting and Taxation

- New budget publication form will highlight effect of budget on sample taxpayers
- Property tax credits – counties will no longer be the middlemen
 - Homestead credit is eliminated and the state savings realized from no longer reimbursing local governments for the homestead credit should be directed to property tax relief and tax relief aimed to renters and low-income persons
 - Ag land and family farm credits combined and changed to direct payment from state to taxpayer
 - Military credit/exemption transferred to refundable income tax credit
 - Elderly credit changed to direct payment from state to taxpayer
- Cities and counties will formally establish their own fund balance limitations
- Stronger unfunded mandate protection language
 - No exceptions, but still subject to “notwithstanding”
- Budget appeals will focus only on issues raised in budget protest petition

The Subcommittee next discussed division 3 of the "Major Points" handout. Division 3 reads as follows:

Constraints and Limitations

- Property Tax Revenue Limitation
 - City general fund; county general basic and rural basic funds
 - Based on base year tax capacity, plus inflation and new construction
 - Unlimited carryover of unused levy authority
 - Limitation may be exceeded by following certain procedures
 - Potential for citizens to override portion of proposed tax levy via reverse referendum
- Effective for the assessment year beginning January 1, 2006, and the fiscal year beginning July 1, 2007

After much discussion, the Subcommittee chose not to adopt the specific language of division 3. The Subcommittee, however, reached consensus that it would recommend the following for consideration by the full committee:

"The Committee agrees with the general concept of a property tax revenue limitation that provides local governments with flexibility and that takes into account local differences and local circumstances."

The Subcommittee moved on to consideration of division 1 entitled "Assessment and Valuation". Division 1 on the "Major Points" handout reads as follows:

Assessment and Valuation

- No more rollback
 - All assessment limitations are eliminated
 - Agricultural and residential values are uncoupled
- 50% exemption for owner-occupied homes (the "homeowner's exemption")
 - \$10,000 floor; \$150,000 ceiling
 - Replaces rollback and homestead credit
- Ag buildings will add net value to the tax rolls
 - Currently ag land value is reduced to offset increased ag building values
- Exempt properties will pay some property tax
 - Value of land will become taxable to cities and counties (default option)
 - Unless local city and/or county opts out
 - Public safety fee may be imposed in lieu of general property tax
- Forest reserve exemption capped at \$1,000 per acre
- All exemptions sunset every four years and must be re-enacted by the Legislature to remain in effect
- "Occupied lot" surcharge on manufactured home park owners to offset elimination of square foot tax on manufactured home owners inside those parks
- All property taxes charged to the landowner
 - Affects buildings on leased land, manufactured homes
- Assessment freeze for platted lands extended from 3 to 6 years – with a hard and fast limit

- Informal assessment reviews allowed with assessor prior to appeal to Board of Review
- Multi-jurisdiction assessors allowed
- Equalization orders will not be applied retroactively; they will apply to the next assessment year
- Multi-classification allowed on individual parcels
 - Allows multi-use properties to be classified and assessed properly

The Subcommittee discussed the components of division 1 at length. The Subcommittee determined that division 1 merited further discussion than the meeting time allotted today. The meeting concluded with each of the Subcommittee members being invited to comment on division 1.

Senator Sievers stated that it appears that the Subcommittee is close to reaching consensus on recommending the "occupied lot" surcharge item, the item relating to charging all property taxes to the landowner, and the item related to the assessment freeze for platted lands (the seventh, eighth, and ninth bullet points, above). He stated that there are strong feelings on the items related to elimination of the rollback. He said that the 50 percent exemption on owner-occupied residences to replace the rollback may be a step in the right direction, but it will still be seen as a potential property tax increase. He also noted that an association representing landlords has concerns about the 50 percent exemption applying only to owner-occupied residences when the current residential rollback applies to rental properties containing fewer than three units. He stated that there were also strong feelings expressed about the assessment of agricultural buildings and multiclassification of property. The cost of multiclassification in terms of complexity and difficulty may outweigh the benefits, he said. He concluded by saying that it is not fair to assume that property taxes will not increase even though the proposal appears to broaden the tax base.

Senator Quirnbach stated that any consensus reached regarding assessment and valuation should include a stipulation that the General Assembly explore a means of providing offsetting relief to renters. The division 1 proposal broadens the property tax base, he said. This should allay the concerns of many commercial/industrial taxpayers because a broader taxable base would translate into lower rates for all property taxpayers. The residential rollback has created an imbalance, he said. The division 1 proposal brings the state closer to where it should be, which is to assess and tax property on the basis of economic value. The proposal would change the way the property tax burden is allocated, but that's the point of the proposed changes, he said. Senator Quirnbach expressed concern with the proposed change to the forest reserve exemption. Lowering the amount that would be exempt may erode or eliminate the incentive to preserve green spaces in urban areas, he said. He further stated that he would prefer a statutory change that would require some degree of permanent commitment to preserving green space, but recommending that type of change may be outside the scope of the Subcommittee discussion.

Mr. McGee noted items in the proposal that would get support from different groups. A change to the law relating to when equalization orders are applied would be a benefit to assessors and taxpayers, he said, because it would result in only one board of review session rather than the current two sessions and there would just be one assessment roll mailed to taxpayers. He added that legislators would like it because they would get fewer complaints from constituents. Allowing multiclassification of property would solve a lot of problems for assessors, he said. Changing the assessment freeze for platted lands from three or five years to six years would be a big break for developers, he noted. The occupied lot surcharge would be a benefit to assessors and to cities and counties, in general. Assessors would no longer have to keep track of square footages on manufactured homes in manufactured home parks and taxing entities would see tax payment delinquency rates fall. Mr. McGee admitted that the proposed change to the forest reserve exemption would not affect his jurisdiction because the forest reserve land is valued at less than \$1,000 per acre. However, it is important to remember that all other taxpayers are making up for the tax dollars lost through these types of exemptions. Finally, Mr. McGee noted that, under this proposal, commercial/industrial taxes are projected to decrease. This proposal may not have been commercial/industrial taxpayers' first choice in property tax changes, he said, but they are likely to benefit from it.

Mr. Stradley, attending as a representative of **Mr. Ralston**, expressed great concern about the proposal to apply equalization orders prospectively. He noted that at one time this was the law, but it was repealed after only one year because it just did not work, he said. He also has concerns about potential lawsuits, particularly from railroad companies. He noted, too, that applying equalization orders prospectively goes against most standard appraisal methods and would give rise to confusion about what values should be used when determining sales ratio. There are less radical alternatives to this proposal that would solve many of the issues brought forth by local officials, he said. One alternative would be to change the date when assessment notices are to be mailed to taxpayers so that they would include application of the equalization order.

Mr. Rouse noted concerns with the \$150,000 ceiling on the proposed homeowner's exemption. It is difficult to attract and retain business executives Iowa, he said, and limiting how much of their residence is nontaxable would not help. He also expressed a concern with the proposal to allow multiclassification of property. He asserted that agricultural taxpayers would be most negatively affected by this change. Finally, he noted that there are probably better ways to limit the forest reserve exemption than the limit proposed by ISAC and the League of Cities.

Mr. Shepler stated that assessing agricultural buildings separately would be a valuation increase on agricultural taxpayers and, therefore, a potential property tax increase. Agricultural buildings are part of the productivity stream and are currently factored into the productivity formula, he noted. Agricultural buildings are currently assigned value at the same productivity ratio that is applied to agricultural land, he said. Mr. Shepler pointed out that the impetus for House File 692, which would have

changed the assessment system to square footage and would have limited when property assessments could be increased, was a concern about perceived continual increases in assessed valuation of property. Some items in division 1 would cause further increases in some assessed property over what the current law allows, he asserted.

Mayor Tedesco stated that he supports recommending division 1 for consideration by the full committee. He stated that, under the current system, local governments are caught in the middle on the homestead property tax credit. This proposal eliminates that uncomfortable position. Mayor Tedesco noted that there appears to be room for negotiation between ISAC and the League and the Subcommittee and interested parties on the following items: 1) the \$150,000 ceiling on the homeowner's exemption; 2) qualifications for receiving the homeowner's exemption; 3) the occupied lot surcharge; 4) application of equalization orders; and 5) taxation of some currently exempt property.

Mr. Veeder stated that, as it relates to application of equalization orders, some kind of change is needed because, currently, timing is a problem. Mr. Veeder stated that there appears to be the potential for negotiation as it relates to modifying some items contained in division 1. He urged the Subcommittee to allow ISAC and the League of Cities to participate in negotiating changes and to give these two groups time to consider any specific changes made to division 1 by the Subcommittee.